



Inquiry into public confidence in HMRC's capability to collect tax fairly and effectively

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Background

This submission is a selected response to your call for comment at <http://www.appgresponsibletax.org.uk/ourwork/current-consultation/>. The response is specifically in the context of the final and not draft call for submissions.

The response is supplied by Richard Murphy FCA in his dual capacity as Professor of Practice in International Political Economy, City, University of London and as Director of Tax Research UK.

The response does draw upon previously published work by Richard Murphy, including *The Joy of Tax*, Bantam Press, 2015.

General

Question 1. *What levels of trust and confidence do the public have in the capability of HMRC to collect tax in an effective way that:*

a) preserves and encourages fairness and equity?

b) is an efficient and effective use of resources?

c) provides a first rate customer service

Response 1

This question is about public perception. This may differ from actual performance but is important: response is almost always based largely upon perception and less upon data and so perception matters, a lot.

The public have a low regard for HMRC. This is not altogether surprising: tax authorities may never be the subject of most people's affection, but the status of HMRC is adversely impacted for a number of very good reasons:

- a. HMRC is perceived to be much tougher on small business and minor miscreants than it is on large taxpayers and those who do not pay tax at all. This perception is commonly shared by the public, small business and their advisers (of whom I was once one). The impression is likely to be well founded because:
 - i. HMRC has incentive structures that encourage staff to pursue relatively minor tax enquiries that can be relatively simply concluded. Such enquiries are, in practice, commonplace. So too are resulting prosecutions. But almost nothing is heard of investigations of large business, wealthy persons and offshore tax abuse. Even the steady flow of press releases from HMRC on prosecutions suggests that the most likely people to be investigated by HMRC are small-scale fast food takeaway operators and petty cigarette smugglers. This is not perceived to be fair;
 - ii. The HMRC penalty structure heavily penalises those who have made minor errors (especially on VAT) when big business by and large gets away without penalties for its misdemeanours because they have taken advice before abusing the tax system;
 - iii. Small business and individuals who do not have real-time relationships with HMRC to prevent errors: big business does. The system of supplying support and advice is heavily biased and favours big business;
 - iv. There is a widespread belief that HMRC look at errors in tax returns they get and not at the more important issue of tax returns they never receive: there is a lot of evidence to support this view.

This issue can only be resolved by HMRC

- v. Tackling big business more robustly;
- vi. Tackling offshore more robustly;
- vii. Tackling failure to submit tax returns more systematically;
- viii. Improving its communication strategy;
- ix. Changing its incentive arrangements that encourage relatively minor tax investigations.

- b. HMRC is not trusted because it is apparent that its Board is drawn solely from big business and this leads to a perception of bias in its conduct.
- c. HMRC is not trusted because of its poor quality of service and advice: this is both difficult to secure (as phone and postal delays prove) and is too often wrong because of the poor training of those supplying it. It is widely believed that service quality has deteriorated as a result of office closures, the close of enquiry centres and a concentration on call centre operations remote from the taxpayer, who feels distanced as a result. HMRC surveys seem to confirm this trend across almost all types of service and amongst almost all taxpayers.
- d. Taxpayers feel patronised by HMRC calling them customers when they are not.
- e. Because of the failings of the organisation in terms of service supply few taxpayers appear to think it uses resources well, or is fair or equitable.

Question 2. *What can be done to improve the levels of public confidence in HMRC's capability?*

Response 2

The public might be reassured by HMRC if it:

- a. Was seen to be challenging big business: the Google settlement was a disaster in this respect;
- b. Was challenging offshore: the HSBC disclosures were another PR disaster in this regard;
- c. Reopened local offices;
- d. Reopened local enquiry centres;
- e. Answered the phone;
- f. Replied to post;
- g. Trained staff better;
- h. Provided better advice;
- i. Or, on other words, did its job without appearing to make life as tough as possible for the taxpayer who is trying to pay their tax or claim their entitlements, which is how it appears at present.

Customer service:

Question 3. Does HMRC provide a first rate customer service?

Response 3. For the reasons noted above, no it does not. The perception appears to spread from multinational corporations onwards.

Question 4. To what extent does HMRC consider the customer's experience in the allocation of its resources and the services it provides?

Response 4. Whatever HMRC might say it would appear that the only issues HMRC takes into account when considering resource allocation are:

- a. Cost cutting;
- b. Staff cutting;
- c. Office closure;
- d. Automation;
- e. Ministerial appeasement.

There is no evidence that taxpayers, staff or real efficiency in the system as a whole (i.e. including taxpayer cost) are ever really taken into account taken into account.

Most especially, there appears to be no understanding of three key issues. The first is really closing the tax gap. Current data on this cannot be used for decision making because well over a third of the numbers within the existing tax gap estimate are illustrative estimates and as such wholly unsuited for decision making. There is as a result no data available to really direct resource allocation.

Second, there is no apparent understanding in HMRC that paying tax is a fundamental social issue that impacts on the relationship between the state and taxpayer at a profound level, with implications for the whole nature of society. It has instead been characterised as a mere transaction of pure monetary value: HMRC does as a result appear to have no real understanding of its social role and the obligations that this role might impose upon it.

Third, HMRC appears to have no understanding that it is a revenue raising department and behaves instead as if it is a cost centre where the sole management goal is to minimise cost whatever the consequence.

In combination these failings suggest HMRC has no proper understanding of the role it plays or the tasks it must undertake.

Question 5. Is the HMRC strategy for improving the customer experience fit for purpose?

Response 5. Because HMRC does not understand its role its current plans are not fit for purpose for the reasons noted.

Dealing with tax avoidance and evasion:

Question 6. How effective is HMRC in dealing with

- a) aggressive tax avoidance?

b) tax evasion?

Response 6. In 2005 the Tax Justice Network (of which I was then a director) decided to focus its attention on the role of tax avoidance using tax havens as a way of illustrating deficiencies in the management of the world's tax systems and the harm that caused. That strategy was extraordinarily successful but it has left the impression that this is the biggest issue in tax abuse when that is not the case: tax evasion in the UK is likely to be four times more significant than tax avoidance¹.

HMRC have over-emphasised control of tax avoidance as a result of the need to address this public perception. In fairness this has been successful: DOTAS, the GAAR, follower notices and new plans to penalise the suppliers of aggressive tax avoidance have all had a significant behavioural impact. There can be little doubt that rates of aggressive tax avoidance have reduced as a result. Whether the scale of the reduction can be properly quantified because of deficiencies in HMRC's tax gap methodology is harder to say.

HMRC have probably made little or no impression on tax evasion over the same period. This is because:

- a. Office closures have destroyed local knowledge;
- b. Cost cutting measures have resulted in many key staff leaving;
- c. The official methodology for the tax gap for tax evasion will always massively understate the scale of the issue because it works on a bottom up basis i.e. from tax returns received, meaning the whole problem of tax returns not supplied is largely unaddressed;
- d. Despite official claims HMRC data resources are very weak: they do not even connect internal systems let alone appear to successfully integrate external data;
- e. There is no automatic information exchange in the UK. Quite absurdly HMRC will have more data on companies owned by UK tax resident people based in Cayman next year than they will on UK tax resident owned companies in the UK itself. As a result maybe hundreds of thousands of companies that might be obliged to file UK tax returns each year are not doing so;
- f. Measures to require banks to report customers with patterns of deposits that might match self employment are not in place;
- g. HMRC has not pursued data on fraudulent trade on Amazon and eBay even when it has been supplied to them;
- h. Staff are not available to pursue evasion;
- i. Checks once seen as key to finding evasion e.g. local VAT visits, have virtually disappeared from HMRC's activities;

- j. HMRC staff rarely monitor ports now.

It is likely that evasion is rife and becoming more commonplace as a result.

Question 7. What legislative, resourcing or other measures would help to narrow the tax gap?

Response 7. A brief summary is:

- a. Properly appraise the tax gap: no management is effective until it properly appraises the issues it faces;
- b. Set up an Office for Tax Responsibility to monitor the tax gap independent of HMRC management;
- c. Appraise the cost of all tax reliefs and allowances and eliminate as many as possible to reduce cost, remove loopholes and ease taxpayer life;
- d. Provide as many tax reliefs (pensions, charitable giving, etc.,) at just one rate to ease administration;
- e. Integrate Companies House and HMRC with one annual return required from all companies, without exception;
- f. Make the directors of companies who do not file required returns personally liable for all tax owing;
- g. Introduce annual automatic information exchange from UK banks to HMRC on:
 - i. Bank accounts a company maintains;
 - ii. Beneficial ownership of the company;
 - iii. Trading addresses;
 - iv. Known directors;
 - v. Annual deposits.
- h. Consider requiring the same data for UK resident individuals;
- i. Require public country-by-country reporting for the behavioural change it will give rise to;
- j. Properly use naming and shaming powers;
- k. Require an HMRC office in every town of more than 100,000 people with an enquiry centre attached;
- l. Improve HMRC pay: make HMRC a viable career option once more;
- m. Set HMRC a task of maximising revenue, not minimising cost;
- n. Require a broad basis of representation on the board of HMRC;

- o. Equalise the rates of income tax and capital gains tax to minimise the incentive to tax abuse;
- p. Reduce the gap between income tax and corporation tax rate to minimise tax abuse.

Question 8. Does HMRC make appropriate use of all the powers and opportunities in its toolkit?

Response 8. As is apparent from answers already given, the answer is no.

Staffing and resources:

Question 9. Are HMRC's resources adequate?

Response 9. HMRC fails to collect between £34 billion and £120 billion tax a year. In that case the resources it has available to it are clearly inadequate.

Question 10. Is HMRC able to recruit and retain people with appropriate skills, qualifications and experience?

Response 10. HMRC has a deeply antagonistic management who often treat their staff and their unions with contempt. Staff morale in HMRC is the lowest in the civil service. Continual disruption to work locations and patterns has undermined any chosen staff career patterns. As a result HMRC has a dire staff retention record, and no one could blame those who have left and want to leave in the face of yet another damaging round of office closures.

Question 11. Within constrained budgets, what could HMRC do to achieve better and more sustainable services?

Response 11. This response can only hint at the range of issues that need discussion:

- a. Why is the budget constrained when every £1 spent raises substantially more than that? Why hasn't a proper cost model been worked out?
- b. Allocate resources to really target the tax gap;
- c. Adopt the measures noted above;
- d. Massively improve staff relations:
- e. Pay staff appropriately;
- f. Meet taxpayer needs in their communities;
- g. Stop pointless automation: for example, end the current proposals for small business quarterly accounting that are ill thought through, unlikely to supply useful accounting data and which will cause massive resentment;
- h. Simplify the tax system;
- i. Change a Board that seems to have no understanding of these issues;

- j. Understand that tax is not a problem: tax is at the heart of society;
- k. Change the culture in society so that tax abuse is viewed as being as anti-social as drink-driving. This requires a culture change at the tip of HMRC where this does not seem to be understood.

ⁱ Based on <http://www.taxresearch.org.uk/Documents/PCSTaxGap2014Full.pdf>